



**DEFENSE LOGISTICS AGENCY**  
**THE DEFENSE CONTRACT MANAGEMENT COMMAND**  
8725 JOHN J. KINGMAN ROAD, SUITE 2533  
FT. BELVOIR, VIRGINIA 22060-6221



IN REPLY  
REFER TO

AQO

OCT 15 1996

**MEMORANDUM FOR COMMANDERS, DEFENSE CONTRACT MANAGEMENT  
DISTRICTS**

**SUBJECT: Cost Savings/Avoidances Reporting**

In July and August of this year, we tested a revised cost savings and cost avoidances reporting procedure and format (attachment 1). Based on a review of the test results and input from the District focal points, we have made some revisions to the reporting definitions, as shown at attachment 2. Among other changes, Category A, "Contracting Officer Price Definitizations", has been retitled "Contracting Officer Price Negotiations", and this category has been expanded to include Termination Contracting Officer settlements. We have also added "Government Property Reutilization" as a separate cost avoidance category.

The revised cost savings and cost avoidances reporting procedure and format at attachment 2 is to be used during FY 97. As explained in paragraph IV of attachment 2, a report is required every two months, and should be submitted to Mr. Nelson Cahill, AQOD, (703) 767-3434 or DSN 427-3434, by the 15th of the month following each two month period. The first report, for example, is required on December 15, 1996. Should you have any questions, please contact Mr. Cahill, at the above number.

ROBERT W. DREWES  
Major General, USAF  
Commander

Attachments





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JUN 12 1996

**MEMORANDUM FOR COMMANDERS, DEFENSE CONTRACT MANAGEMENT  
DISTRICTS**

**SUBJECT: Cost Savings/Avoidance Reporting**

Attached is a proposed revision to our DCMC cost savings/avoidance reporting process and procedures (Attachment 1). In conjunction with the establishment of Return on Investment as one of our Top 7 Metrics, HQ Teams have streamlined the cost savings and avoidance categories outlined in our December 21, 1995 memorandum (Attachment 2).

Data for the proposed new cost savings/avoidance categories at Attachment 1 are to be reported monthly over the next 2 months (July and August). Please provide the data within 10 days after the close of each month. All data are to be reported to Mr. Rich Zerilli, AQOG, (703) 767-3371. In addition, during this test period, please continue to collect and report the data required under our December 21 memorandum. This will enable us to determine after the test period any final adjustments that may be needed for FY 97.

**ROBERT W. DREWES**  
Major General, USAF  
Commander

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## **ROI COST SAVINGS AND AVOIDANCES**

### **I Introduction:**

A. **Return on Investment (ROI)** is one of the top seven DCMC metrics. ROI is calculated by dividing total annual cost savings and cost avoidances by the DCMC budget. In 1995, the DCMC ROI was approximately 3 to 1. In other words, for every dollar invested in DCMC employee salary and overhead expense, DCMC returned three dollars.

B. **Cost savings and avoidances** result from many different activities performed by DCMC personnel. Outlined below are definitions, rules, and procedures for identifying and reporting selected, DCMC-wide cost savings/avoidance actions on a quarterly basis to HQ DCMC.

### **II General Definitions**

A. **Cost Savings:** A cost saving is defined as a reduction in an established contract dollar value or a return of money to the Government as a result of some DCMC action. (See "Reporting Categories" below for more details.)

B. **Cost Avoidance:** A cost avoidance is defined as the dollar amount by which the Government's cost would have been higher without specific DCMC action, but does not meet the definition of cost savings. (See "Reporting Categories" below for more details.)

### **III Reporting Categories**

#### **A. Contracting Officer Price Definitizations**

**(Savings):** Report the difference between the contractor's proposed price and the price negotiated by the ACO or PCO, when a not-to-exceed (NTE) amount was previously established in the contract, such as undefinitized contractual actions (UCAs) and other contract changes. Include only those PCO negotiations that were supported by DCMC IPT Pricing participation, and utilize the PCO's negotiation memorandum or actual contract definitization document to ascertain the final price.

**(Avoidances):** Report the difference between the contractor's proposed price and the price negotiated by the ACO or PCO on new procurements. [Note: UCA's and other negotiations involving previously established NTE amounts are to be recorded as savings.] Include only those PCO negotiation actions that were supported by DCMC IPT Pricing participation, and utilize the PCO's negotiation memorandum or actual contract definitization document to ascertain the final price. (NOTE: Do not report subcontract pricing actions independently, as they will be included in the prime contractor IPT Pricing action.)

## **B. Process Improvements**

**Savings & Avoidances:** Report all cost savings and cost avoidances that result from DCMC participation in, and contribution to, contractor process improvement activities and DCMC surveillance activities. This includes all process improvements resulting from DCMC/contractor teaming activities and DCMC continuous improvement opportunities. [NOTE: Savings are defined as actual contract price reductions, or the return of money to the Government. Cost avoidances are reductions to future expenditures, and should be totalled for existing flexibly priced contracts over their respective contract lives.]

## **C. Other Contractual Actions**

**(Savings):** Report savings resulting from:

- (1) Settlement of final overhead rates (report the difference between the proposed and negotiated final rates applied only to the flexibly priced Government sales for the year negotiated.)
- (2) Disposition of Cost Accounting Standards non-compliances.
- (3) Voluntary refund actions initiated by DCMC

**(Avoidances):** Report contractor reimbursement to the Government for unauthorized use of Government property, as detected through Property Utilization Surveys or other DCMC surveillance actions.

## **D. Contractor Insurance/Pension Reviews (CIPRs)**

**Savings & Avoidances:** Report all cost savings and cost avoidances resulting from the performance of CIPRs. (NOTE: Please see paragraph II for definitions of savings and avoidances.)

## **E. Product Noncompliances Reported By Corrective Action Requests (CARs)**

**(Avoidances):** Report the cost of all rework or repair to products classified as unusable to the customer and reported by CARs from both in-process and end item product audits.

## **F. Litigation**

**(Savings):** Report money returned to the Government because of court judgements or negotiated settlements or legal proceedings resulting from some DCMC action. Savings of this nature can result from a wide range of legal proceedings, including criminal and civil fraud cases, claims filed under the Contract Disputes Act, bankruptcy proceedings, and alternative dispute resolution proceedings.

## **IV Procedures and Reporting Frequency**

**A. Only cost savings and cost avoidances that are verifiable and quantifiable are to be reported. Documentation supporting the reported savings and avoidances will be maintained at the field office level.**

**B. Frequency of reporting. (Because these new categories are being tested, we require monthly data for July and August. The data should be forwarded to Mr. Rich Zerilli, AQOG, HQ DCMC, telephone (703) 767-3371, by the 10th of the following month, i.e., Aug 10 and Sep 10.)**

## ROI Cost Savings & Avoidances

### I Introduction:

a. Return on Investment (ROI) is one of the top seven DCMC metrics. ROI is calculated by dividing total annual cost savings and cost avoidances by the DCMC budget. In 1995, the DCMC ROI was approximately 3 to 1. In other words, for every dollar invested in DCMC employee salary and overhead expense, DCMC returned three dollars.

b. Cost savings and avoidances result from many different activities performed by DCMC personnel. Outlined below are definitions, rules, and procedures for identifying and reporting selected, DCMC-wide cost savings/avoidance actions on a bimonthly basis to HQ DCMC.

### II General Definitions

a. Cost Savings: A cost saving is defined as a reduction in an established contract dollar value or a return of money to the Government as a result of some DCMC action. (See "Reporting Categories" below for more details.)

b. Cost Avoidance: A cost avoidance is defined as the dollar amount by which the Government's cost would have been higher without specific DCMC action, but does not meet the definition of cost savings. (See "Reporting Categories" below for more details.)

### III Reporting Categories

#### a. Contracting Officer Price Negotiations

(Savings): Report the difference between the contractor's proposed price and the price negotiated by the ACO or PCO, when a not-to-exceed (NTE) amount was previously established in the contract, such as undefinitized contractual actions (UCAs) and other contract changes. For PCO price negotiations, include only those PCO actions that were supported by DCMC IPT Pricing participation, and utilize the PCO's negotiation memorandum or definitizing contract modification to ascertain the final price.

For TCO negotiated settlements, report the difference between the contractor's proposed termination settlement and the price actually negotiated by the TCO. Determinations/settlements that are concluded as a result of legal proceedings, or alternative dispute resolution are to be reported under Category f, Litigation.

(Avoidances): Report the difference between the contractor's proposed price and the price negotiated by the ACO or PCO on new procurements. [Note: UCA's and other negotiations involving previously established NTE amounts are to be recorded as savings.] Include only those PCO negotiation actions that were supported by DCMC IPT Pricing participation, and utilize the PCO's negotiation memorandum or actual contract document to ascertain the final price. (NOTE: Do not report subcontract pricing actions independently, as they will be included in the prime contractor IPT Pricing action.)

b. Process Improvements

Savings & Avoidances: Report all cost savings and cost avoidances that result from DCMC participation in, and contribution to, contractor process improvement activities and DCMC surveillance activities. This includes all process improvements resulting from DCMC/contractor teaming activities and DCMC continuous improvement opportunities. [Note: Savings are defined as actual contract price reductions, or the return of money to the Government. Cost avoidances are reductions to future expenditures, and should be totalled for existing flexibly priced contracts over their respective contract lives.]

c. Other Contractual Actions

(Savings): Report savings resulting from:

- (1) Settlement of final overhead rates (report the difference between the proposed and negotiated final rates applied only to the flexibly priced Government sales for the year negotiated.)
- (2) Disposition of Cost Accounting Standards non-compliance.
- (3) Voluntary refund actions initiated by DCMC
- (4) Contractor reimbursement to the Government for unauthorized use of Government property, as detected through Property Utilization Surveys or other DCMC surveillance actions.

d. Contractor Insurance/Pension Reviews (CIPRs)

Savings & Avoidances: Report all cost savings and cost avoidances resulting from the performance of CIPRs. (Note: Please see paragraph II for definitions of savings and avoidances.)

e. Product Noncompliances Reported By Corrective Action Requests (CARs)

(Cost Avoidance): Report the cost of all rework or repair to products classified as unusable to the customer and reported by CARs from both in-process and end item product audits. (Report the full value of, the item, only if the item is scrapped.)

f. Government Property Reutilization

(Cost Avoidance): Report the acquisition cost of all Government property reutilized through redistribution by plant clearance actions to the Army, Navy, Air Force, other DoD Agencies, NASA, and other Government Agencies.

g. Litigation

(Savings): Report money returned to the Government because of court judgments or negotiated settlements of legal proceedings resulting from some DCMC initiated action. Savings of this nature can result from a wide range of legal proceedings, including criminal and civil fraud cases, claims filed under the Contract Disputes Act, bankruptcy proceedings, and alternate dispute resolution proceedings.

IV Procedures and Reporting Frequency

a. Only cost savings and cost avoidances that are verifiable and quantifiable are to be reported. Documentation supporting the reported savings and avoidances will be maintained at the field office level.

b. Frequency of reporting. (Reports are required every 2 months. The data should be forwarded to Mr. Nelson Cahill, HQ DCMC, AQOD, telephone (703) 767-3434, by the 15th of the following month, e.g. for the months of October and November, the report is required by December 15. Each report should identify total cost savings/avoidances for the 2 month period, together with a breakout of cost savings and cost avoidances for each of the 5 categories.)